October 17, 2023

Gregory Katz
Regulatory Affairs Division, Office of General Counsel
Pension Benefit Guaranty Corporation
445 12th Street SW
Washington, DC 20024-2101

[Submitted via electronic mail: reg.comments@pbgc.gov]

RE: Valuation Assumptions and Methods, proposed rule, Regulation Identifier Number RIN 1212-AA55

Dear Mr. Katz,

The Pension Committee and the Multiemployer Plans Committee ("the Committees") of the American Academy of Actuaries[1] are pleased to offer the following comments in response to the Pension Benefit Guaranty Corporation's (PBGC) request for comments regarding the proposed rule, Valuation Assumptions and Methods, published in *Federal Register* Vol. 88, No. 159 on August 18, 2023 (RIN 12-12-AA55).

The Committees appreciate the opportunity to provide feedback and support the proposed rule's intent to modify the interest, mortality, and expense assumptions for valuing benefits under subpart B to PBGC's regulation on Allocation of Assets in Single-Employer Plans (29 CFR part 4044).

As PBGC is aware, these assumptions are incorporated by reference in other PBGC regulations and are used by actuaries beyond the single employer plan universe, making the potential impact of these changes quite broad. For example, multiemployer plans use PBGC's 4044 assumptions for a number of calculations, including the determination of a withdrawn employer's liability in the event of a mass withdrawal. Plans that receive Special Financial Assistance (SFA) under the *American Rescue Plan Act* must use the 4044 interest rate assumptions to calculate the plan's withdrawal liability until the later of 10 years after the end of the year in which the plan receives

[1] The American Academy of Actuaries is a 19,500-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

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SFA or until the plan has exhausted the SFA funds. These assumptions are also used as part of a plan's withdrawal liability calculations, often in a blended approach with the plan's valuation rate. They are also used as part of the measurement of benefit liabilities for purposes of ERISA 4010 reporting, as well as for mergers or spinoffs under Internal Revenue Code Section 414(l) when relying on "deemed reasonable" assumptions.

The Committees also appreciate and commend the PBGC's stated goals of the modifications, namely modernization of the interest rate structure, better reflection of market conditions at the time of the measurements, increased transparency, adoption of a more recent mortality table with generational mortality improvements, and the simplification of the expense assumption. These changes will facilitate the use of these assumptions in other contexts, such as estimating the cost of annuitizing pension obligations, and will be helpful to practitioners.

Interest Rate Assumption

The Committees note that the modern approaches for interest rate assumptions for the purposes of measuring pension liabilities for single employer plans has evolved over time, reflecting the term structure of interest rates by utilizing a yield curve methodology. The proposed methodology aligns with this practice and represents a significant improvement over the current methodology by reflecting market conditions as of the measurement date. Therefore, the Committees believe that adopting this approach for purposes of measuring pension liabilities under Section 4044 is appropriate and reasonable.

PBGC also proposes to use a blend of two publicly available yield curves published monthly by the Department of Treasury, representing two different levels of bond credit quality. Generally, this approach is aimed at mimicking the structure of market spot rates for a hypothetical bond portfolio underlying the PBGC's surveyed annuity pricing. Given the PBGC's goal to reflect the term structure of the fixed income investments that underlie the price of group annuities, this approach can be expected to provide reasonable results in most market environments. We note that the resulting yield curve may not be a good proxy for insurer pricing under abnormal market conditions, such as the credit crisis of late 2008. It is likely that the most straightforward adjustment mechanism for such scenarios would be to modify the spread adjustments to accommodate unusual market conditions. The Committees would recommend the addition of language that reserves the right to modify the spread adjustment off-cycle. We would also recommend that the PBGC be permitted to make adjustments based on information that is more current than the recent insurer pricing survey, to the extent appropriate, and to the extent that the PBGC has other sources of information that allows for a reasonable adjustment.

The Committees believe that the use of the prior month-end pricing basis for valuation dates during the following month is reasonable, given a goal of predictability and at least a limited degree of advance notice. We would caution that, should major capital market shifts occur, they

will impact the associated asset values and not the comparable liability values. However, the vast majority of required uses for this assumption will utilize month-end measurement dates, lessening any such concern. The proposed rule represents a significant improvement relative to the current approach, which reflects a significant time lag. For optional uses of these assumptions, such as estimating funded status or annuity pricing, the user can look to daily market information, such as the Treasury yield curve, to make reasonable adjustments from a month-end to a midmonth measurement date.

The construction of the underlying yield curve by blending two publicly available yield curves through stated weights meets the transparency goal expressly stated in the proposed rule.

The Committees also note that, for certain purposes, it is convenient to reference a single interest rate, rather than the collection of rates comprising the entire yield curve. For many purposes related to yield curve-based measurements of pension obligation, an index is published in addition to the annual schedule of spot/yield rates.[2] Typically, such an index is obtained by deriving a single effective rate producing the same present value as the yield curve-based measurement for representative cash flow streams of varying durations. Such an index would provide readily comparable measures of annuity market pricing across time and may be of significant value to practitioners.

The use of a single interest rate might assist multiemployer plans that are calculating an employer's withdrawal liability payment schedule after the plan received SFA (§ 4262.16 of SFA regulations require the use of 4044 interest rates for this purpose for a specified number of years). Because withdrawal liability payment schedules are limited to 20 years, it may be appropriate to determine an interest rate based on a 20-year period.

Multiemployer plans do not use the yield curve for calculating funding liabilities, and most multiemployer plan actuaries maintain a single interest rate approach. Given that most modern actuarial software can produce yield-curve-based liabilities, adapting to the change in methodology is feasible. It must be said, however, that this approach may increase the time and cost associated with these calculations for multiemployer plans.

As you are aware, the Treasury has also proposed a methodology change for the corporate bond yield curve that would be used by the PBGC. To the extent that this change results in a change in the overall level of interest rates reflected in the yield curve—due to the inclusion of additional bonds that generally have somewhat lower yields on average—this change to Treasury's corporate bond yield curve should eventually be picked up by the spread adjustment that calibrates the result to insurer pricing, because insurer pricing is unaffected by the Treasury's

[2] For example, together with the full FTSE pension discount yield curve used for some for measuring accounting liabilities, FTSE (and the Society of Actuaries) publishes three indices: for mature, average and young pension plan.

action. In the interim, the PBGC may want to consider making an immediate adjustment to the spread adjustment curve to compensate for discontinuities in methodology once the new corporate bond yield curve takes effect.

Mortality Assumption

The goal of aligning the mortality assumption with the insurance industry pricing assumption indicates that a change to a more current baseline mortality table is warranted and appropriate. The Committees agree that for valuing pension obligations, actuarial practice has generally evolved to utilizing mortality assumptions that reflect generational mortality improvement.

The Committees agree with the proposal that reflecting various demographic characteristics that materially impact mortality rates, such as gender and employment status, is reasonable and appropriate. Given the intent to follow the IRS/Treasury's approach in referencing the most recent table published by the Society of Actuaries' (SOA) Retirement Plans Experience Committee (RPEC), we share the belief that the table is currently the best widely available mortality experience study for measuring pension obligations for PBGC-covered plans.[3] The use of a current and representative mortality assumption will also allow the PBGC's discount rate spot yield curve to stand on its own as a reasonable assumption for multiple purposes, rather than having to incorporate an offset for an outdated mortality assumption.

We would ask the PBGC to keep in mind that the most recent SOA study published a family of baseline mortality tables. These included those reflecting population occupation, such as the "blue collar" version of mortality tables. For certain purposes, such as multiemployer withdrawal liability, the use of such a table may better reflect the underlying demographics of the pension plans being valued.

Expense Assumption

PBGC's explicit goal in setting an expense provision is to align with pricing in the private-sector annuity market. This was based on the idea that the current multi-tier assumption is too complicated and the level of complexity is not warranted, given that private insurers' expense loads account for a small portion of the total cost of a group annuity. Therefore, PBGC proposes simplified per participant loads, depending on the size of the group and indexed for inflation. The Committees agree that a simplified expense assumption is a good idea but would note that the expense level implied by deferred annuity contracts is typically higher than for immediate contracts. The PBGC may want to consider developing two levels of expense provisions, one applicable to pensions in pay status and another applicable to benefits with deferred starting dates.

[3] The Pri-2012 Report of the SOA RPEC, published in October 2019.

We appreciate the PBGC considering our comments and recommendations. Please contact Philip Maguire, the Academy's pension policy analyst (202-785-7868 or maguire@actuary.org), if you have any questions or would like to discuss these issues further. We appreciate the thoughtful and potentially impactful changes that the proposal offers. The Committees and the Academy look forward to continued engagement on these issues.

Respectfully,

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